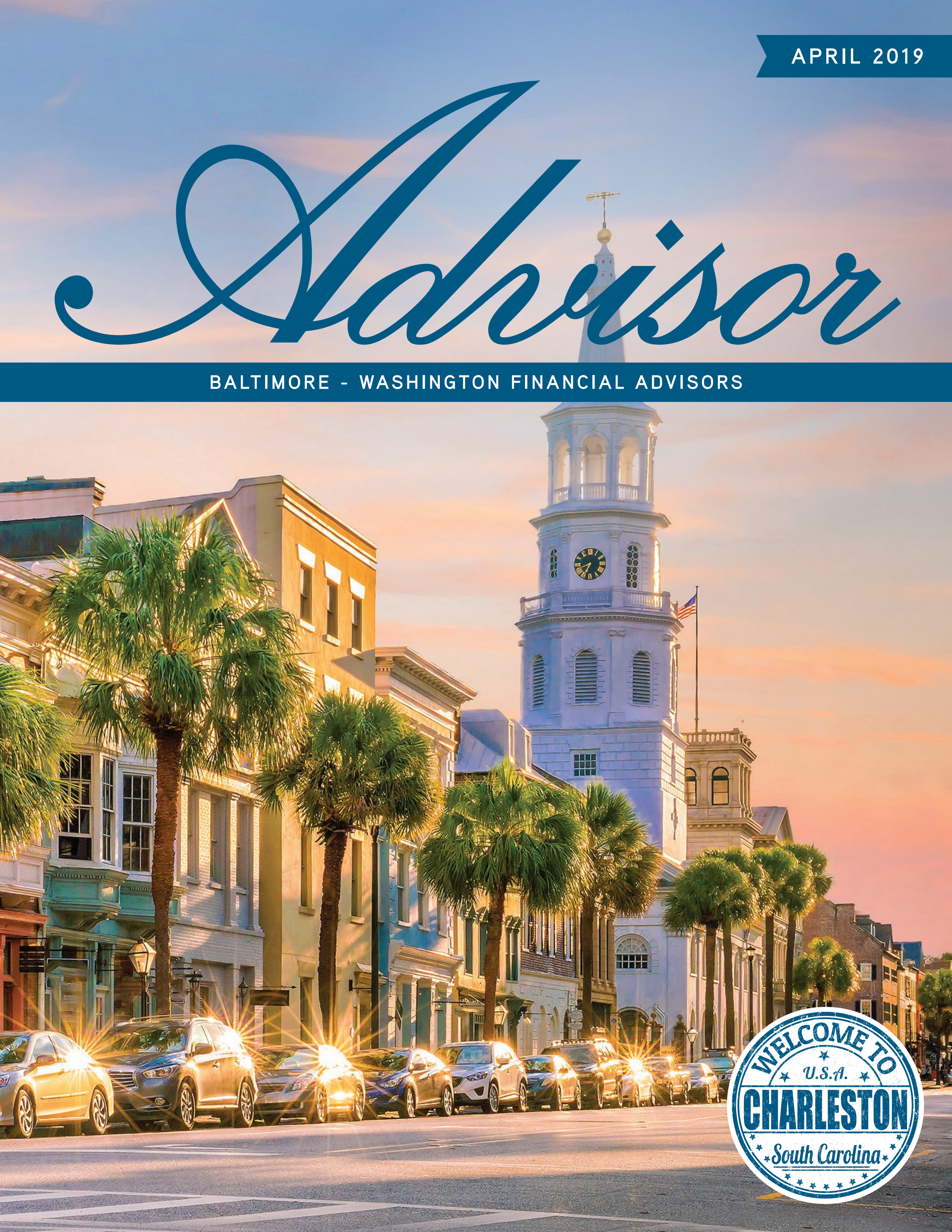
APRIL 2019

Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS



B | W | F | A

President's Address

FOUR REASONS YOUR PARENTS MIGHT BE IN FINANCIAL TROUBLE

ROBERT G. CARPENTER
PRESIDENT & CEO
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As your parents age, they will probably need more help from you. But it may be difficult to provide the help they need, especially if they're experiencing financial trouble.

Money can be a sensitive subject to discuss, but you'll need to talk to your parents about it in order to get to the root of their problems and come up with a solution. Before you start the conversation, consider the following four scenarios as signs that your parents might be experiencing financial challenges, and how you can make things easier for them.

1. THEY ARE DEALING WITH DEBT

Perhaps your parents have fallen behind on their mortgage or credit card payments. Maybe they're dealing with the aftermath of a large, unexpected medical bill. Or it could be that years of generously supporting their children and grandchildren have left their finances in trouble.

Whatever the cause, debt among older Americans is a growing trend. In 2010, the average debt for a family in which the head of household was age 75 or older was $30,288. In 2016 (most recent data available), that number grew to $36,757.[1]

2. THEY ARE FALLING FOR FRAUD

According to a report by the Federal Trade Commission, older adults have been targeted or disproportionately affected by fraud. Moreover, older adults have reported much higher dollar losses to certain types of fraud than younger consumers.[2]

Why do scammers target older individuals? There are many explanations for this trend. Some older individuals lack an awareness about major financial issues. Others may be attractive targets for scammers because they have access to retirement account assets or have built up home equity. Additional factors that increase an older adult's vulnerability to scams include cognitive decline and isolation from family and friends.

3. THEY AREN'T USED TO MANAGING FINANCES

The loss of a spouse can create many challenges for the survivor, especially if the deceased spouse was in charge of finances. Many widows or widowers might find themselves keeping track of statements, paying bills, budgeting, and handling other financial matters for the first time, which can be a complicated reality to face.

4. THEY STRUGGLE WITH CHANGE

As financial institutions continue to innovate and increase online and mobile access to customer accounts, it can be difficult for older consumers to keep up. For example, some older adults may struggle with accessing their financial information online. Others might get frustrated or confused when financial institutions implement new policies and procedures, especially if they've had an account with an institution for decades.

One report described the most common issues that older consumers identified with bank accounts or services. The top three complaints involved account management (47%), deposits and withdrawals (27%), and problems caused by low funds (12%).[3]

No one wants to see their parents suffer from financial difficulty. By taking some of these preventive steps and engaging in those sometimes uncomfortable conversations, you can better help your parents in dealing with their struggles. Please know that BWFA is here to assist in any way we can.

Robert Carpenter

WAYS YOU CAN HELP

Regardless of the reasons why your parents might be having money problems, there are steps you can take to help them.

- **Set up a meeting with a financial professional.** Encourage your parents to meet with a professional to evaluate their financial situation. BWFA would be happy to help
- **Help them reduce spending.** Look for big and small ways that they can scale back on expenses, such as downsizing to a smaller home, cutting cable plans, or canceling unnecessary memberships/subscriptions.
- **Have them tested for dementia.** If you've noticed behavioral or memory changes in one or both of your parents, share your concerns with a medical professional. Cognitive decline can result in difficulty managing finances.
- **Lend money (using caution).** If you decide to help your parents monetarily, consider paying your parents' expenses directly rather than giving them cash so you can ensure that their bills are paid on time.
- **Help them apply for assistance.** The National Council on Aging has a website, **BenefitsCheckUp.org**, that can help you determine your parents' eligibility for federal, state, and private benefit programs.

1 *Debt of the Elderly and Near Elderly, 1992-2016, Employee Benefit Research Institute, 2018*

2 *Protecting Older Consumers: 2017-2018, Federal Trade Commission, 2018*

3 *Monthly Complaint Report, Vol. 23, Consumer Financial Protection Bureau, May 2017*

PHOTO: The Palmer Home in historic Charleston was built in 1848 by John Ravenel, now operated as a B&B by third generation owner, Francess Palmer. The house is furnished and decorated with antiques dating back two hundred years.

PHOTO: Historic architecture in French Quarter Neighborhood, Charleston, SC

Do you know someone

WHO COULD USE GUIDANCE WITH THEIR INVESTMENTS?

MAYBE YOU KNOW SOMEONE WHO IS RETIRED OR NEARING RETIREMENT AND COULD BENEFIT FROM OUR SERVICES?

WE ASK YOU, OUR EXISTING CLIENTS, TO RECOMMEND OUR SERVICES TO FRIENDS OR FAMILY MEMBERS THAT COULD BENEFIT FROM OUR SUPPORT.

BY HELPING US GROW OUR "FAMILY OF CLIENTS," WE GET TO SHARE OUR PASSION WITH MORE PEOPLE JUST LIKE YOU.

PLEASE CONTACT MEGHAN AT MMANAS@BWFA.COM

COVER PHOTO: Historic District of Charleston, SC. A popular tourist destination, known for its rich history, well-preserved architecture, distinguished restaurants, and hospitable people.

APRIL 2019 TABLE OF CONTENTS

2 **PRESIDENT'S ADDRESS**
ROB CARPENTER | President & CEO

5 **AN EVENING WITH OUR EXECUTIVE TEAM**
The Iron Bridge Wine Company

6 **FINANCIAL PLANNING**
THAD ISMART | CFP®
Senior Financial Planner

8 **INVESTMENT MANAGEMENT**
CHRIS KELLY | CPA, CFP®, M. Accy
Financial Advisor and Portfolio Manager

10 JOSEPH CAPUTO | CFP®
Chief Information Officer
& Associate Portfolio Manager

11 MEGHAN MANAS
Director of Client Services

12 JOSEPH MANFREDI | MBA
Chief Operating Officer & Sr. Portfolio Manager

13 **8,000 DAYS IN RETIREMENT**

14 **TAX SERVICES**
RACHEL DUNCAN | Tax Advisor

16 **BUSINESS SERVICES**
BRIAN MACMILLAN
Managing Director Mergers & Acquisitions

18 **BWFA Q&A: EMPLOYEE SPOTLIGHT**
TYLER KLUGE | CFP®
Associate Financial Planner

19 **WELLNESS SERIES**
"Stress Less" w/ Dr. Emily Telfair, N.D.

20 **BWFA UPCOMING EVENTS**

22 **BWFA IN THE COMMUNITY**

23 **CLIENT INFORMATION WORKSHOP**
Meet Your Client Service Team

BWFA

CORDIALLY INVITE YOU AND YOUR GUESTS TO ATTEND

AN EVENING WITH OUR EXECUTIVE TEAM AT AWARD WINNING RESTAURANT, THE IRON BRIDGE WINE COMPANY

THURSDAY, MAY 2, 2019 • 6:00 PM TO 9:00 PM

All BWFA clients are valued members of our "family". From time to time, our clients inquire about the best way to introduce BWFA to their friends who could benefit from our help and guidance. Please know your introductions and referrals are an essential component of BWFA's continued success. Enjoy an evening with friends while savoring premier wines and delicious food at The Iron Bridge Wine Company! No formal presentation, simply an evening with the Executive Team which will include a very brief welcome and introductions. We ask you to invite friends who are not currently clients of BWFA and who would benefit from getting to know us.

We appreciate your support and look forward to seeing you there and meeting your guests!

Robert Carpenter

Robert Carpenter
President and CEO

To register for the event: Email Eve Kennedy at ekennedy@bwfa.com

Financial Planning

STAY WELL WITH GOOD HEALTH INSURANCE

THAD ISMART
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Your goals and priorities will probably change as you plan to retire. Along with them, your insurance needs may change as well. Retirement is typically a good time to review the different parts of your insurance program and make any changes that might be needed.

After you retire, you'll probably focus more on your health than ever before. Staying healthy is your goal, and that may require more visits to the doctor for preventive tests and routine checkups. There's also a chance that your health will decline as you grow older, increasing your need for costly prescription drugs and medical treatments. All of this can add up to substantial medical bills after you've left the workforce (and probably lost your employer's health benefits). You need health insurance that meets both your needs and your budget.

Fortunately, you'll get some help from Uncle Sam. You typically become eligible for Medicare coverage at the same time you become eligible for Social Security retirement benefits. Premium-free Medicare Part A covers inpatient hospital care, while Medicare Part B (for which you'll pay a premium) covers physician care, laboratory tests, physical therapy, and other medical expenses. But don't expect Medicare to cover everything after you retire. For instance, you'll have to pay a large deductible and make co-payments for certain types of care. Medicare prescription drug coverage is only available through a managed care plan (a Medicare Advantage plan), or through a Medicare prescription drug plan offered by a private company or insurer (premiums apply).

To supplement Medicare, you may want to purchase a Medigap policy. These policies are specifically designed to fill the holes in Medicare's coverage. Though Medigap policies are sold by private insurance companies, they must follow federal and state laws. There are 10 standard Medigap plans, except for plans in Massachusetts, Minnesota, and Wisconsin, which are standardized in a different way. Generally, all of these plans provide certain core benefits, and all but one offer combinations of additional benefits. Be sure to look at both cost and benefits when choosing a plan.

What if you're retiring early and won't be eligible for Medicare for a number of years? If you're lucky, your employer may give you a retirement package that includes health benefits at least until Medicare kicks in. If not, you may be able to continue your employer's coverage at your own expense through COBRA. But this is only a short-term solution, because COBRA coverage typically lasts only 18 months. Another option is to buy an individual policy. You can shop for health insurance through a state or federal health insurance Marketplace, where you can compare plans as to coverages offered and cost. You may also be able to lower the cost of your insurance coverage if you qualify for a premium subsidy.

DON'T OVERLOOK LONG-TERM CARE INSURANCE

If you're able to stay healthy and active throughout your life, you may never need to enter a nursing home or receive at-home care. But the fact is, many people aged 65 and older will require some type of long-term care during their lives. And that number is likely to go up in future years because people are increasingly living longer. On top of that, long-term care is expensive. You should be prepared in case you do need long-term care at some point.

Unfortunately, Medicare provides very limited coverage for long-term care. You may be covered for a short-term nursing home stay immediately following hospitalization, but that's about it. Other government and military-sponsored programs may help foot the bill, but generally only if you meet strict eligibility requirements. For example, Medicaid requires that you exhaust most of your assets before you can qualify for long-term care benefits. Even a good private health insurance policy will not offer much coverage for long-term care. But most long-term care insurance (LTCI) policies will.

LTCI is sold by private insurance companies and typically covers skilled, intermediate, and custodial care in a nursing home. Most policies also cover home care services and care in a community-based setting (e.g., an assisted-living facility). This type of insurance can be a cost-effective way to protect yourself against long-term care costs—the key is to buy a policy when you're still relatively young (most companies won't sell you a policy if you're under age 40). If you wait until you're older or ill, LTCI may be unavailable or much more expensive.

WEIGH YOUR NEED FOR LIFE INSURANCE

If you're married, you want to make sure that your spouse will have enough money when you die. You may also have children and other heirs you want to take care of. Life insurance can be one way to accomplish these goals, but several questions arise as you near retirement. Should you keep that existing policy in place? If so, should you change the coverage amount? What if you don't have any life insurance because you lost your group coverage at work (though some employers let you keep the coverage at your own expense)? Should you go out and buy some? The answers depend largely on your particular circumstances.

Your life insurance needs may not be as great during retirement because your financial picture may have improved. When you're working and raising a family, the loss of your job income could be devastating. You often need life insurance to replace that income, meet your outstanding debts (e.g., your mortgage, car loans, credit cards), and fund your kids' college education in case something happens to you. But after you retire, there's usually no significant job income to protect. In addition, your kids may be grown and most of your debts may be paid off. You may even be financially secure enough to provide for your loved ones without insurance.

It may make sense to go without life insurance in these cases, especially if you have term life insurance and your premium has increased dramatically. But what if you still have financial obligations and few assets of your own? Or what if you're looking for a way to pay your estate tax bill? Then you may want to keep your coverage in force (or buy coverage, if you have none). If you need life insurance but not as much as you have now, you can always lower your coverage amount. It's best to talk to a professional before making any decisions. He or she can help you weigh your needs against the cost of coverage.

TAKE A LOOK AT YOUR AUTO AND HOMEOWNERS' POLICIES

If you stay in your home after you retire, your homeowner's insurance needs may not change much. But you should still review your liability coverage to make sure it's sufficient to protect your assets. If you're liable for an accident on or off your premises, claims against you for medical bills and other expenses can be substantial. For additional protection, you might consider buying an umbrella liability policy. It's also a good idea to review the coverage you have on your home itself and the property inside it. Finally, if you plan to buy a second home, find out if your insurer will cover both homes and give you a discount on your premium.

Auto insurance raises some similar issues. Review your policy to make sure your coverage limits are high enough in each area. Again, having the right amount of liability coverage is especially important —you don't want your assets to be put at risk if you cause an auto accident that injures other people or damages property. Weigh your need for any coverages that are optional in your state. Finally, look into ways to save on your premium now that you're retired (e.g., discounts for low annual mileage or senior driving courses).

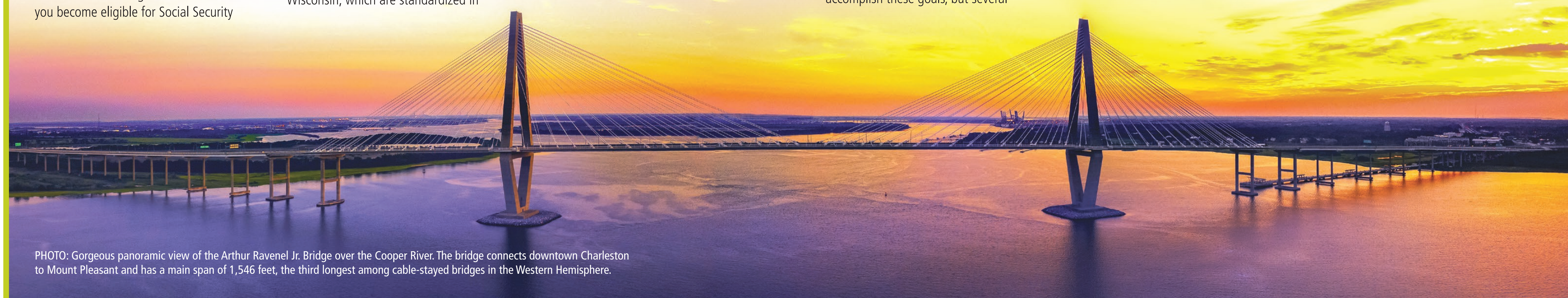
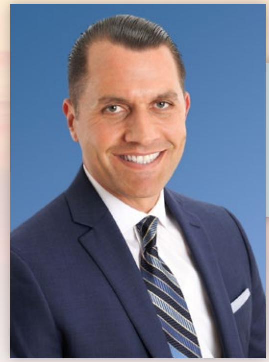


PHOTO: Gorgeous panoramic view of the Arthur Ravenel Jr. Bridge over the Cooper River. The bridge connects downtown Charleston to Mount Pleasant and has a main span of 1,546 feet, the third longest among cable-stayed bridges in the Western Hemisphere.

Investment Management



BALANCING A RETIREMENT PORTFOLIO WITH ASSET ALLOCATION

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The combination of investments you choose is as important as the individual investments themselves. In fact, many experts argue that it's even *more* important, since the mix of various types of investments accounts for most of the ups and downs of a portfolio's return. Each type of investment, or asset class, has strengths and weaknesses that let it play a specific role in your overall investing strategy. Some investments, such as stocks, may be chosen for their growth potential. Other asset classes, such as bonds, may provide regular income. Still others may offer relative stability or serve as a place to park money temporarily. And some investments may try to fill more than one role.

Balancing how much of each asset class you should include in your retirement portfolio is one of your most important tasks as an investor. That balance between growth, income, and safety/stability is called your asset allocation. It can help you manage the level and type of risks you face.

BALANCING RISK AND RETURN

Ideally, you should strive for an overall combination of investments that take the least amount of risk in trying to achieve a targeted rate of return. This often means balancing more conservative investments against others that are designed to provide a higher return but that also involve more risk.

Someone who is close to retirement and about to start relying on his or her savings for living expenses will probably need a very different asset allocation than a young, well-to-do working professional whose priority is saving for a retirement that's 30+ years away. The level of risk you are able to take is known as your "risk tolerance," and it's affected by factors such as how soon you'll be using your savings as well as your emotional and financial ability to handle setbacks.

Don't forget about the impact of inflation on your retirement savings. As time goes by, your money will probably buy less and less unless your portfolio at least keeps pace with the inflation rate. Even if you think of yourself as a conservative investor, your asset allocation should take long-term inflation into account.

MANY WAYS TO DIVERSIFY

In addition to thinking about how to divide your assets among stocks, bonds, and cash — the three basic asset classes — consider how your assets are allocated within an asset class. For example, for the stock portion of your portfolio, you could allocate a certain amount to large-cap stocks, and a different percentage to one that focuses on stocks of smaller companies. Or you might allocate based on geography, putting some money in U.S. stocks and some in those of companies overseas. Bond funds will vary based on the underlying bonds they hold, and are subject to the same inflation, interest-rate, and credit risks associated with them. Those differences will affect a fund's yield and volatility. Cash alternatives such as a money market fund can be used to park money until you decide how to invest it. Once you've covered the basic three asset classes, there may be others that can be used to diversify further.

There are various approaches to choosing an asset allocation that makes sense for you. The most popular approach is to look at what you're investing for and how long you have to reach each goal. Those goals get balanced against your immediate need for money — for example, to pay living expenses. The more secure your immediate income and the longer you have to pursue your investing goals, the more aggressively you might be able to invest for them. That means your asset allocation might have a greater percentage of stocks, which are considered riskier than bonds or cash but which also might offer a greater potential long-term return.

PHOTO: Ivy-covered historic brick home in Charleston, SC

Some investors believe in shifting their assets among asset classes based on which types of investments they expect will do well or poorly in the near term. However, this approach, called "market timing," is extremely difficult even for professional investors. Less experienced investors often tend to put money into an asset class that has performed well recently, only to watch that strong performance disappear shortly after they've invested.

Some people try to match market returns with an overall "core" strategy for most of their portfolio. They then put a smaller portion into very targeted investments that may behave very differently from those in the core and that provide greater overall diversification.

MAINTAINING TABS ON ASSET ALLOCATION

Even if you've chosen an appropriate asset allocation, market forces may quickly begin to alter it without any action on your part. If stock prices go up, you may eventually find yourself with a greater percentage of stocks in your portfolio than you want. If stock prices go down, you might worry that you won't be able to retire when you hope to — or at all.

Let's say you initially decided on an 80% to 20% mix of stock investments to bond investments. If stocks perform well, you might find after several years that your portfolio is now divided 88% to 12% (conversely, if stocks haven't done well, you might have a 70-30 ratio of stocks to bonds in this hypothetical example). You should review your portfolio periodically to see if you need to return to your original allocation.

Also, your asset allocation should take into account any changes in your life and circumstances — for example, if you get married, divorce, have children, change jobs, or get close to retirement. Even if your asset allocation was right for you when you first chose it, it may not be right for you now. It should change as your circumstances do. A piece of clothing you wore 10 years ago may not fit now; you just might need to update your asset allocation, too.

PHOTO: The famous Charleston Pineapple Fountain – Located in the heart of Waterfront Park, this enchanting fountain has become a must-see monument since its opening in 1990 proceeding Hurricane Hugo. Its iconic pineapple acts as a familiar symbol of hospitality in the Lowcountry.

Investment Management

WHAT TO DO WITH CASH RESERVES

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In times of crisis, you don't want to be shaking pennies out of a piggy bank. Having a financial safety net in place can ensure that you're protected when a financial emergency arises. One way to accomplish this is by setting up a cash reserve, a pool of readily available funds that can help you meet emergency or highly urgent short-term needs.

HOW MUCH IS ENOUGH?

Most financial professionals suggest that you have three to six months' worth of living expenses in your cash reserve. The actual amount, however, should be based on your particular circumstances. Do you have a mortgage? Do you have short-term and long-term disability protection? Are you paying for your child's orthodontics? Are you making car payments? Other factors you need to consider include your job security, health, and income. The bottom line: Without an emergency fund, a period of crisis (e.g., unemployment, disability) could be financially devastating.

BUILDING YOUR CASH RESERVE

If you haven't established a cash reserve, or if the one you have is inadequate, you can take several steps to eliminate the shortfall:

- Save aggressively: If available, use payroll deduction at work; budget your savings as part of regular household expenses
- Reduce your discretionary spending (e.g., eating out, movies, lottery tickets)
- Use current or liquid assets (those that are cash or are convertible to cash within a year, such as a short-term certificate of deposit)
- Use earnings from other investments (e.g.,stocks, bonds, or mutual funds)
- Check out other resources (e.g., do you have a cash value insurance policy that you can borrow from?)

A final note: *Your credit line can be a secondary source of funds in a time of crisis. Borrowed money, however, has to be paid back (often at high interest rates). As a result, you shouldn't consider lenders as a primary source for your cash reserve.*

WHERE TO KEEP YOUR CASH RESERVE

You'll want to make sure that your cash reserve is readily available when you need it. However, an FDIC-insured, low-interest savings account isn't your only option.

There are several excellent alternatives, each with unique advantages. For example, money market accounts and short-term CDs typically offer higher interest rates than savings accounts, with little (if any) increased risk.

Note: *Don't confuse a money market mutual fund with a money market deposit account. An investment in a money market mutual fund is not insured or guaranteed by the FDIC. Although the mutual fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund.*

Note: *When considering a money market mutual fund, be sure to obtain and read the fund's prospectus, which is available from the fund or your financial advisor, and outlines the fund's investment objectives, risks, fees, expenses. Carefully consider those factors before investing.*

It's important to note that certain fixed-term investment vehicles (i.e., those that pledge to return your principal plus interest on a given date), such as CDs, impose a significant penalty for early withdrawals. So, if you're going to use fixed-term investments as part of your cash reserve, you'll want to be sure to ladder (stagger) their maturity dates over a short period of time (e.g., two to five months). This will ensure the availability of funds, without penalty, to meet sudden financial needs.

REVIEW YOUR CASH RESERVE PERIODICALLY

Your personal and financial circumstances change often—a new child comes along, an aging parent becomes more dependent, or a larger home brings increased expenses. Because your cash reserve is the first line of protection against financial devastation, you should review it annually to make sure that it fits your current needs.

PHOTOS: Vibrant historic houses along Rainbow Row in Charleston, SC. It represents the longest cluster of Georgian row houses in the U.S.; The pier at Waterfront Park

IS THERE A GENDER-GAP IN INVESTING?

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There is a plethora of research suggesting that, at least at the individual level, women may be better investors than men. For example, a major financial institution looked at over 8 million client accounts and found that women outperformed men by 0.4%, while another popular study, conducted by Warwick Business School found an even greater gender-based outperformance, with women coming out ahead by 1.2%. Even at an advantage of only 0.4%, over time, such a difference will really add up!

The problem however is that research also shows that women are less likely to invest than men, tending to save a greater percentage of their income. There are many unsurprising reasons given for this phenomenon. Women have been found to be more averse to risk, and often claim to not have the confidence in their financial knowledge to invest more. The irony here is that these same qualities that may keep women from investing can actually be beneficial (and lead to better performance) when they do enter the market.

Trading too much is a common cause of underperformance. Generally, as more risk-averse investors, women tend to trade less, preferring to buy and hold.

A study by the University of California Berkeley found, over a 6 year period, men traded 45% more than women. By trading less an investor avoids having returns eaten away by transaction costs, and also makes less emotional trading decisions (and mistakes). By hanging in there, women's returns outpaced those of the men.

Despite being better savers, and (perhaps) having a more natural proclivity towards successful investing, women inevitably end up with less retirement savings than males. This is due in large part to the fact that women simply are not paid as much as men, even for the same work in the same position. According to Pew Research Center, in the United States, in 2017, women earned 82% of what men earned. While the gap is narrowing (it was 80% in 2016), a woman still has to work about 47 days more per year to earn the same as her male counterpart! The only chance women have of making up this discrepancy, by retirement, is to begin investing as early as possible, and sticking with it.

As opposed to simply saving more, investors get the benefit of compounded returns, which over time are truly the path to building a nest egg.

Here at BWFA we offer planning and investment advice to clients of all ages and circumstances, including men and women, ready to retire or just starting to dream. While we believe everyone can benefit from sound financial advice, and strive to treat each client as an individual with unique needs and circumstances, women's fundamental investment characteristics align perfectly with what we do here. We seek to hold a portfolio of well positioned investments, diversified by industry and geography that will perform over the long term. We'll help keep you on track for a successful and fulfilling retirement, navigating any of the inevitable bumps along the way. That's a philosophy that we believe works equally well for men, women, and families of all shapes and sizes.

To discuss your unique situation and find out how we can help set you on a path for success, please call 410-461-3900 to meet with an advisor today.

Investment Management

PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE RESULTS

JOSEPH MANFREDI
MBA
CHIEF OPERATING OFFICER / SENIOR PORTFOLIO MANAGER
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"While results vary from asset class to asset class and from time period to time period, experience suggests that for predicting future values, historical data appear to be quite useful with respect to standard deviations (risk), reasonably useful for correlations, and virtually useless for expected returns."

—WILLIAM F. SHARPE, 1990 Nobel Prize winner in Economics

The above assertion from Dr. Sharpe, one of the great minds in economics and finance, and one of the originators of the capital asset pricing model, sums up that we must not look at the past to ascertain the future.

We can find many times throughout history where individuals chose investments based on the past. Remember the "dot com boom"? Ironically, when chasing investments that were yesterday's darlings, the additional buying pressure can cause these past favorites to be even more artificially priced, moving them further away from the fundamentals that would justify their true value going forward. Meaning—one can really overpay for something, which makes the probability of investment success less likely.

Other titans of U.S. industry have offered similar sentiments in somewhat more simple terms—**"Be fearful when others are greedy and greedy when others are fearful."** *(Warren Buffet)* and, **"Buy when everyone else is selling and hold until everyone else is buying. That's not a catchy slogan. It's the essence of successful investing."** *(J. Paul Getty)* We have discussed in previous *BWFA Advisor* issues the perils of following the crowd. Unfortunately, the "crowd" (financial media, friends at the club, etc.) often look in the rear-view mirror to chart the course for the future. The general investing population might act on what was popular yesterday thinking it will be a good investment tomorrow—which is often not the winning approach.

In market downturns we often experience the widespread pessimism (possibly caused by the same crowd mentality) about an investment that can drive the price so low that it focuses too much on the investment risk, or perceived risk, and overlooks that investments prospects for returning superior results for the investor. Can we achieve success by looking for good buys now rather than overpaying for something that has been overhyped in the past?

Through prudent fiduciary investment management, much of the artificial signals or triggers from "looking in the rear-view mirror" can be professionally screened out so that the decision made for the investor can be focused on the merits of the investments moving forward into the future.

PHOTO: Folly Beach, located on Folly Island in Charleston County, SC

B|W|F|A

CORDIALLY INVITE YOU TO ATTEND

8,000 DAYS IN RETIREMENT

THURSDAY, MAY 9, 2019 • 11:45 AM TO 1:00 PM • LUNCH WILL BE SERVED

In 2019 the average retiree is living much longer than previous generations. What will you do with all that additional time? Are you financially prepared?

The Massachusetts Institute of Technology AgeLab, led by Joesph Coughlin has performed fascinating new research on aging. At BWFA we are committed to the whole retirement experience, including client wellness and navigating the ups and downs of the entire retirement journey. We encourage you to join us for a robust discussion on the four distinctly different phases of retirement. Discover how each phase will impact you and your loved ones.

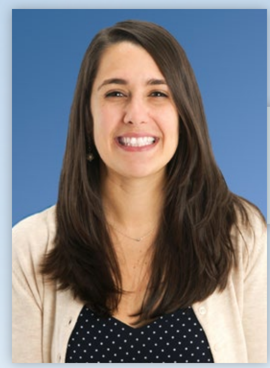
Sincerely,

Robert Carpenter

Robert Carpenter
President and CEO

To register for the event: Email Eve Kennedy at ekennedy@bwfa.com

Tax Services



HOW DOES EVERYONE FEEL ABOUT TAXES?

RACHEL DUNCAN
TAX ADVISOR
rduncan@bwfa.com

I'm assuming you all have answers I don't want to hear. Last quarter, Amy Cudia (Tax Advisor) took the time to tell you about Federal tax credits and how they work. Let's discuss even more ways to save you money.

WITHHOLDING

I know what you're going to say: *Changing my withholding doesn't change the amount of taxes I owe, just when I pay them.* You're right, if you pay in more during the year, you pay less at tax time and vice versa. The issue is that this year everyone's withholding was lowered based on the new tax laws. For some, the extra money was great in each paycheck, BUT, they had a tax bill with their tax return. When you're not planning on owing tax, it's hard to come up with the cash to pay your bill. If you don't pay in at least 90% of this year's tax, or 110% (100% for some) of last year's taxes throughout the year, the IRS and your state can penalize you. This is where adjusting your withholding can save you some money. If you owed money or received an extremely large refund this year, have your tax advisor verify your withholding for 2019.

QUALIFIED CHARITABLE DISTRIBUTIONS (QCD)

A QCD is a direct distribution from your IRA to a charity. When you turn 70 ½ you need to start taking Required Minimum Distributions from your IRA. If you choose to send all or part of it directly to charity, you get an immediate reduction of your taxable income. This happens even if you take the standard deduction. It also gives you benefit when you itemize your deductions. This reduction in income lowers your Adjusted Gross Income (AGI), which could give you more benefit from your medical expenses which are limited based on your AGI. The limit on QCDs is not the same as itemized charitable contributions. QCDs are limited to $100,000 per person, unrelated to the amount of income you might have.

LIVE IN FLORIDA

Although I'm not telling you to move, you should know that some states do not charge any income tax. If you are considered a resident of one of these states, you won't even file a state income tax return. The following states have zero income tax: Wyoming, Washington, Texas, South Dakota, Nevada, Florida, and Alaska. Tennessee and New Hampshire only tax interest and dividends. Make note though, that many of these states have increased sales tax or real estate tax to make up for the missing income tax. If you are considering moving, you should investigate these state options. You should also try to attend our seminar "State of Residence" to get a better understanding of the tradeoffs.

RETIREMENT INCOME EXCLUSIONS

Of the states that do charge income tax, a majority do not tax Social Security benefits. Pennsylvania, Mississippi and Illinois do not tax any retirement income, while other states exclude a portion of your retirement income. If your state does tax your retirement, there may be other exclusions available.

Military Retirement Exclusion

For Federal purposes, military retirement income is fully taxable. The only exception is if you have a disability rating from the military, but do NOT receive VA benefits for your disability. The idea is that your military retirement income is only taxable after being reduced by the amount of VA benefits you should be receiving. VA disability benefits are never taxable.

There are 10 states that exclude all military retirement income from income tax. Other states exclude a certain amount of military retirement income: either a set amount or percentage per person, or an amount based on the age of the retiree. For example, Maryland allows an exclusion of up to $10,000 if you are under 55 and up to $15,000 if you are over 65. Please contact your tax advisor if you are unsure whether you should receive one of these benefits.

Hometown Heroes Act: Retired Correctional Officer, Law Enforcement Officer or Fire, Rescue, or Emergency Services Personnel Pension Exclusion

This exclusion is a Maryland benefit for those that receive a pension, annuity or endowment from a qualified employee retirement system listed in the title. To qualify you need to be 55 or older, but not older than 64. The maximum exclusion is $15,000. This exclusion was first put into effect on the 2017 tax return. In 2018, the exclusion was bumped from $10,000 to $15,000, as well as adding Correctional Officers. If you missed this exclusion in 2017, contact your Tax Advisor to see if an amended return can be filed.

MARYLAND TAX CREDITS

I know not everyone lives in Maryland, but many of Maryland's tax credits are replicated in other states. If you need help looking into it for your state, let us know.

Homeowners' Property Tax Credit

This one is not related to income tax, but it is definitely worth mentioning. This credit puts a limit on the amount of property taxes paid based on the amount of income that you have. There are 4 requirements for this credit:

1. You own or have a legal interest in the property
2. The home is your principal residence
3. Your net worth is less than $200,000 (this is after reducing your total net worth by the value of this home and any qualified retirement accounts (IRAs, etc.))
4. Your combined gross income is less than $60,000

The application is due by September 1st of each year, but if you file by May 1st, you'll receive the credit directly on your tax bill. Otherwise it will come on a revised tax bill and government check for what you overpaid.

Long-Term Care Insurance Credit

To qualify for this credit, you need to have paid long-term care insurance premiums in the year you plan to take the credit. This is a one-time credit per individual, so don't try to take it every year. You are disqualified if you were covered by long-term care insurance before July 1, 2000. The credit is for $410 if you are 40 and under, or $500 if you are 41 and older. This credit is taken on your Maryland tax return, so let your tax advisor know if you would like to take it this year.

529 COLLEGE SAVINGS PLAN

This state tax deduction has been mentioned in previous articles, but it's always something to keep in mind. When you contribute to a 529 plan, you don't get a direct deduction from your Federal taxable income, but the money does grow tax free. A distribution from the account is also tax free if it is used to pay qualified education expenses. Each state has its own 529 plan, and most give a deduction on their income tax return if you contribute to their respective 529 plan.

Everyone's tax scenario is different, so saving money on taxes is not a one-shop kind of answer. Hopefully this gives you some ideas of what might help your taxes for future years. As always, we are available for questions year-round.

PHOTO: Colorful beach houses on the Isle of Palms, SC

Business Services

PLANNING FOR SUCCESSION OF A BUSINESS: CAN I GIVE IT AWAY?

BRIAN MACMILLAN
MANAGING DIRECTOR
MERGERS & ACQUISITIONS
bmacmillan@bwfa.com

When you develop a succession plan for your business you have two basic choices: you can sell your business, or you can give it away. In the January 2019 Advisor, we focused on options for selling your business. There are various strategies that can be used to accomplish this outcome, including selling via a buy-sell agreement or selling to an outside party. When considering a succession plan, business owners should consider all their alternatives with their financial and legal advisors. This quarter, we will focus on options related to giving your business away, or "gifting" your business.

Once you choose to either sell or gift, you can structure your plan to go into effect during your lifetime or at your death.

TRANSFER YOUR BUSINESS THROUGH LIFETIME GIFTS

You can transfer your business interest through lifetime gifts by doing just that — making gifts during your lifetime.

You can choose to make smaller gifts of portions of your business interest over a period of time or make a gift in total at your retirement.

LIFETIME GIFTING REDUCES THE VALUE OF YOUR ESTATE AND COULD LOWER YOUR ESTATE TAXES

A lifetime gifting program removes the value of the business from your estate as you make gifts to the recipient. The benefit to you is a reduction in the value of your total estate, thus the possibility of lower estate taxes at your death. Not only do you remove the value of the gift itself from your estate, but you also remove the future appreciation on the gift and taxes that would be associated with the gain.

LIFETIME GIFTING ALLOWS YOU TO TAKE ADVANTAGE OF THE ANNUAL GIFT TAX EXCLUSION, WHICH MAY HELP YOU REDUCE TOTAL GIFT AND ESTATE TAXES

You could make gifts of unrestricted stock over a period of time by arranging the gifting program to maximize the annual gift tax exclusion, which allows you to gift up to a certain amount per donee, per year without incurring federal gift tax (although you may have to pay state gift tax). The benefit to you is a tax-free, systematic reduction in the size of your estate. When you make gifts of portions of your stock, you ultimately pay less total gift tax than if you made one large gift, thanks to the valuation discount.

LIFETIME GIFTING REQUIRES YOU TO GIVE UP PART OR ALL OF YOUR BUSINESS

As you make gifts of your business interest, you might also be giving up some of your ownership control over the business, while the recipient of the gift gains control. If you have co-owners, your relative percentage of control will diminish. If you are the majority stockholder, it might take a long time before you are in a position of significantly less control. If you hold equal ownership with co-owners, it may not take long before you become a minority shareholder.

TRANSFER YOUR BUSINESS INTEREST AT DEATH THROUGH YOUR WILL OR TRUST

If you wish to keep control of your business until your death and transfer your interest to someone at that time, you could transfer your business interest at death through your will or trust. This method of business succession can be effective when the intended receiver of your bequest is currently active in your business and would be able to carry on the business activities.

WILL PROVISIONS CAN AUTHORIZE THE CONTINUATION OF YOUR BUSINESS

A will provision can direct the executor of your estate to continue your business for a specified period of time or purpose, thus granting permission to carry out activities that otherwise may not be allowed. If the business is continued, the executor may be held personally liable for losses of the business. Caution should be taken by authorizing the executor to incorporate the business, which may limit liability to the activities of the continued business. After your death, the business can be maintained until your family can take control and continued income from your business can be provided to your family and heirs.

WITH A LIVING TRUST, YOU CAN SEE YOUR CONTINUATION PLAN IN ACTION

A living trust would allow you to make a revocable transfer of your business interest, providing you with the opportunity to see your continuation plan in action while you are alive. You can see your successor management operating the business while you are afforded continued control and input. This gives you the chance to be completely satisfied with your decision before it becomes irrevocable at your death.

A LIVING TRUST CAN PROVIDE INCOME TO YOU OR YOUR HEIRS

Depending upon the structure of your living trust, you may receive an income from the trust during your retirement until your death. At your death, the business may provide income to your family or heirs or the business can be maintained until your family or heirs can take over.

USE OF A TRUST CAN BE EFFICIENT AND PRIVATE

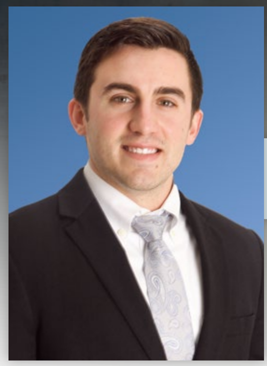
When you establish a living trust, it requires you to organize your property during your lifetime. In doing so, your assets are transferred at death in an orderly fashion as you intended and not at the discretion of the court. The use of a trust will be less expensive overall, because your assets pass from the trust directly to the people you designate to receive them, avoiding the costly probate court process. This would be considered a private transaction, keeping the transfer free of any publicity.

CHOOSING THE RIGHT TYPE OF SUCCESSION PLAN

The various succession strategies can be used to achieve specific goals for your business. Depending upon your particular situation, one or more of these tools may be appropriate for you. Whether you choose to sell or gift your business, our Merger & Acquisition Advisors at BWFA can help navigate the various succession strategies.

PHOTO: Historic homes along the Battery, a landmark defensive seawall and promenade in Charleston, SC. The Ashley and Cooper Rivers meet here to form Charleston harbor.

BWFA Q&A



EMPLOYEE SPOTLIGHT

TYLER KLUGE
CFP®
ASSOCIATE FINANCIAL PLANNER
tkluge@bwfa.com

Q. TELL US ABOUT AN ACCOMPLISHMENT THAT YOU CONSIDER TO BE THE MOST SIGNIFICANT IN YOUR CAREER.

A. The most significant accomplishment so far in my career has been becoming a CERTIFIED FINANCIAL PLANNER™. The process required a significant amount of time and effort to complete both the education program and the exam. I'm proud to be able to help our clients plan their financial lives, and the knowledge I gained through the CFP® process has enhanced my ability to do so. I am very thankful for the assistance from my colleagues and friends at BWFA who provided me with opportunity to gain the experience, knowledge, and confidence to successfully complete the program. I also am very thankful for the support of my Fiancé, Shayna.

Q. TELL US ABOUT A MEMORABLE TRAVEL EXPERIENCE.

A. Immediately after we graduated from our undergraduate studies at UMD, Shayna and I were fortunate to have the opportunity to travel through Europe together. We planned a 23-day trip visiting 9 different cities including London, Amsterdam, Berlin, Prague, Munich, Venice, Florence, Rome, and Paris. It was an amazing experience to be able to see so many different places and meet different people throughout the world!

Q. WHAT IS YOUR FAVORITE PART OF WORKING AT BWFA?

A. My favorite part of working at BWFA is our team. While I believe it is certainly important to have the ability to work independently, I enjoy the fact that we all work together at BWFA as part of a team to collectively help our clients achieve their goals. I value the fact that I have fun working with people I consider not only colleagues but friends.

Q. FAVORITE THINGS TO DO OUTSIDE OF WORK?

A. I really enjoy being active, whether that's hiking or running outdoors, or swimming/lifting weights at the gym. I also enjoy attempting to play golf, attending Ravens games, traveling, and volunteering with Habitat for Humanity.

Q. WHAT ARE YOUR FAVORITE BAND OR SONG?

A. My favorite band is Dave Matthews Band. I started listening to them when I was 16 and haven't stopped. In fact, I've traveled around the country to see them perform live over 30 times. Since I love statistics and numbers I've enjoyed tracking every live show and song that I've seen over the years.

B | W | F | A
Baltimore-Washington
FINANCIAL ADVISORS

"STRESS LESS" WITH DR. EMILY TELFAIR, N.D.

PRESENTER:

HeartSpace
NATURAL MEDICINE

DR. EMILY TELFAIR, N.D.
NATUROPATHIC DOCTOR
HEARTSPACE NATURAL MEDICINE

WHEN:

Thursday, April 25th
11:45 AM to 1:00 PM EDT

***Lunch will be served**

WHERE:

BWFA Offices
5950 Symphony Woods Rd.
Ste. 600
Columbia, MD 21044

Baltimore-Washington Financial Advisors and Baltimore-based naturopathic doctor Emily Telfair, N.D. invite you to the next edition of our wellness series.

The multi-tasking tendencies of modern life can lead to physical changes in our bodies related to stress. In this empowering yet relaxing presentation, Dr. Emily will share tools and tips for reducing stress and reclaiming your joy with natural therapies.

TOPICS WILL INCLUDE:

- Learn about the impact of stress on the physical body.
- Explore the benefits of mindfulness for supporting mood and mental clarity.
- Experience the calming effect of herbs by creating a personal tea blend.
- A review of additional stress-reducing nutrients and healing practices will be included!

To register for the event:

Email Eve Kennedy at ekennedy@bwfa.com

We look forward to seeing you there!

Sincerely,
Eve Kennedy | Client Associate | BWFA
emailus@bwfa.com | 410-461-3900

Upcoming Events

PHOTOS: Folly Beach, nestled between Folly River and the Atlantic Ocean. Built in 1995, The Edwin S. Taylor Fishing Pier extends 1,045 feet into the ocean; One of the most iconic images of the beach is the Morris Island Lighthouse, best viewed from the northeast end of Folly Beach.

All Seminars are from 11:45 A.M. to 1:00 P.M. unless noted otherwise. Please join us and bring a friend.

April

APRIL 4, 2019
How to Downsize into a New Lifestyle w/ Stephanie McClellan, Realtor® from Northrop Realty and Kim McMahon, Founder of Let's Move, LLC

APRIL 4, 2019
6:00 PM - 9:00 PM
BWFA Book Club "Educated: A Memoir" By: Tara Westover

APRIL 6, 2019
7:30 PM - 9:30 PM
The Columbia Orchestra Symphonic Pops Concert

APRIL 9, 2019
Disability Planning w/ Gary Greenwald, Esq.

APRIL 16, 2019
Business Owner Series: Exit Strategy & Succession Planning

APRIL 18, 2019
Elder Law w/ Elville and Associates

APRIL 23, 2019
Top 10 Mistakes Retirees Make

APRIL 25, 2019
Wellness Series: "Stress Less" w/ Dr. Emily Telfair, N.D.

APRIL 30, 2019
Protecting Against Identity Theft w/ Howard Tech Advisors

May

MAY 2, 2019
Estate Planning for Second Marriages w/ Gary Greenwald, Esq.

MAY 7, 2019
Pitfalls of Annuities

MAY 9, 2019
8,000 Days in Retirement

MAY 21, 2019
State of Residence in Retirement

MAY 23, 2019
Estate Planning: Selecting a Trustee w/ Elville and Associates

MAY 30, 2019
CST Client Information Workshop

June

JUNE 4, 2019
Making the Most of Medicare

JUNE 6, 2019
Estate Planning: Trustee Workshop w/ Gary Greenwald, Esq.

JUNE 18, 2019
Retirement 101

JUNE 20, 2019
Estate Planning: Caring for Someone with Special Needs w/ Elville and Associates

JUNE 25, 2019
Caring for Elderly Parents - Webinar w/ Bob Mauterstock

JUNE 2019 (TBD)
Columbia Orchestra Summer Pops Concert at the Chrysalis

July

JULY 4, 2019
6:00 PM - 10:00 PM
Fourth of July Client Appreciation Event at Four Seasons Hotel Baltimore

JULY 9, 2019
Business Owner Series Part 2 w/ Matthew F. Penater, Esq.

JULY 16, 2019
Planning for Social Security

JULY 18, 2019
Estate Planning: Retirement Benefits w/ Elville and Associates

JULY 23, 2019
Estate Planning: Providing Creditor Protection w/ Gary Greenwald, Esq.

JULY 25, 2019
6:00 PM - 9:00 PM
BWFA Book Club (TBD)

JULY 30, 2019
Roth vs. Traditional IRA

Check out BWFA.COM for latest list of seminars.

BWFA *in the Community*

2019 MSP POLAR BEAR PLUNGE

Thank you to all who supported our Mueller Plunge team. We raised $23,685 for Special Olympics Maryland this year alone and I can assure you, the money raised will go to great use for the more than 7,700 Maryland athletes that compete in numerous sports year around.

The Chesapeake Bay water temperature was extremely cold (in the 30's) but many of us made a second trip into the water, including Danielle who made the Saturday night news with her second plunge – up to her neck!

Danielle and her fellow athletes want to thank you all for your generous contributions and tremendous support. This was our third year plunging and we plan to do it again next year.

Sincere thanks,
Bob

I want to thank the Mueller Plunge team and all that Contributed for your support of Special Olympics Maryland. We Plunged and the water was very cold!

I am training now for the winter games at whitetail in February and will do my best to make you all proud.

I love you all. You are the best!

Danielle

Neighbor Ride
Volunteers Drive - Seniors Thrive®

NEIGHBOR RIDE CELEBRATING OVER 14 YEARS OF SERVICE IN HOWARD COUNTY

Neighbor Ride, a nonprofit transportation service dedicated to helping local seniors remain active, independent, and connected to the community, offers a fun and easy way for just about anyone to be involved. Volunteer drivers give seniors rides for health care appointments, cultural and social gatherings, faith services, fitness and educational activities, shopping, and other personal needs.

Want to get involved and make a difference?
Flexible daytime, evening, and weekend volunteer opportunities are available.

For information about volunteering, contact Holly Waddell or Patrice Cerwonka at **410-884-7433** or **volunteer@neighborride.org**.

www.neighborride.org

B | W | F | A

CORDIALLY INVITE YOU TO A CLIENT INFORMATION WORKSHOP

MEET YOUR CLIENT SERVICE TEAM AND LEARN ALL THE WAYS WE CAN ASSIST YOU!

ANN GARCZYNSKI, CPA – Senior Client Associate
JOSEPH DePATIE, CFP® – Associate Financial Planner
MEGHAN MANAS – Director, Client Services
EVE KENNEDY – Client Associate
TYLER KLUGE, CFP® – Associate Financial Planner

THURSDAY, MAY 30, 2019 • 11:45 AM TO 1:00 PM • LUNCH WILL BE SERVED

Baltimore-Washington Financial Advisors invite you to come and meet your Client Service Team and learn all the ways we can assist you! From the beginning, we work to keep you informed, educated and involved in the entire process.

TOPICS WILL INCLUDE:

- BWFA's Integrated Approach
- Overview of the BWFA Client Service Team
- How to navigate our website
- Client access and tutorial
- BWFA Client Cloud instructions
- Upcoming Seminars and Client Events
- The Ins and Outs of your BWFA Quarterly Packet

We look forward to seeing you there!

Robert Carpenter

Robert Carpenter
President and CEO

To register for the event: Email Eve Kennedy at ekennedy@bwfa.com

B|W|F|A

Baltimore-Washington

FINANCIAL ADVISORS

RETIREMENT & ESTATE PLANNING | INVESTMENT MANAGEMENT | TAX SERVICES | BUSINESS SERVICES

5950 SYMPHONY WOODS ROAD | SUITE 600 | COLUMBIA, MD 21044 | P: 410.461.3900 | TF: 888.461.3900 | F: 443.539.0330 | BWFA.COM